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CITY OF BREA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2009

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CITY OF BREA

JUNE 30, 2009

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A Professional Corporation

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- Shelly K. Jackley, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Brea, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brea, California, (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we believe that the significant deficiency described in the accompanying schedule of findings and questioned costs is not a material weakness.



To the Honorable Mayor and Members of the City Council
City of Brea, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

This report is intended solely for the information and use of management, the audit committee, the City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lane, Soll & Loughard, LLP

December 11, 2009



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and the Members of the City Council
City of Brea, California

Compliance

We have audited the compliance of the City of Brea, California, (the "City") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Brea's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



To the Honorable Mayor and the Members of the City Council
City of Brea, California

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated December 11, 2009. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Lane, Soll & Luykhard, LLP

January 13, 2010

CITY OF BREA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program Identification Number	Program Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Orange:			
Community Development Block Grant	14.218	KC07727 KC08792	\$ 31,115 100,000
Total U.S. Department of Housing and Urban Development			131,115
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Seizure and Forfeiture Program	16.000		269,754
Passed through the State of California, Office of Emergency Services:			
Anti-Drug Abuse Program	16.579	DC-08-19-0300	71,194
Total U.S. Department of Justice			340,948
<u>U.S. Department of Transportation</u>			
Passed through the State of California, Department of Transportation:			
Highway Planning and Construction*	20.600	TCSP03-5237(013) STPL-5237(019) STPL-5237(018) ER-4215(003) STPL-5237(017) HSIPL-5237(021)	11,821 240,000 195,000 24,561 121,768 18,793
Total U.S. Department of Transportation			611,943
<u>U.S. Department of Treasury</u>			
Direct Program:			
Federal Asset Seizure and Forfeiture Program	21.000		76,531
Total U.S. Department of Treasury			76,531
<u>U.S. Department of Homeland Security</u>			
Passed through the State of California, Office of Emergency Services:			
Disaster Assistance Program	97.036	FEMA-1577-DR-CA	261,730
Passed through the County of Orange:			
Emergency Management Performance Grant	97.067	2007-6	3,341
Passed through the City of Anaheim:			
Urban Area Security Initiative	97.008		30,152
Passed through the City of Santa Ana:			
Urban Area Security Initiative	97.008		18,904
Total U.S. Department of Homeland Security			314,127

CITY OF BREA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program Identification Number	Program Expenditures
<u>U.S. Department of Education</u>			
Direct Program:			
Fund for the Improvement of Education	84.215	U215K050393	13,681
Total U.S. Department of Education			13,681
<u>U.S. Environmental Protection Agency</u>			
Direct Program:			
Water Infrastructure - Master Plan Sewer Upgrade Phase 2	66.610	XP-96937601-0	192,400
Total U.S. Environmental Protection Agency			192,400
Total Federal Expenditures			\$ 1,680,745

* Major Program

Note a: Refer to Note 1 of the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: There were no pass-through awards provided to subrecipients during the year.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Brea, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF BREA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.205

Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

CITY OF BREA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 09-1

During our test work of accounts payable, we noted three invoices related to fiscal year 2008-09 and paid in fiscal year 2009-10 that were not properly recognized as a liability in the prior fiscal year. The City needs to review its procedures to ensure that all items which relate to the prior fiscal year are appropriately recorded. Toward that end, we recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF BREA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.